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THE WHITE HOUSE

WASHINGTON

PRESIDENT'S FOREIGN INTELLIGENCE ADVISORY BOARD

June 4, 1982

Dear Mr. Casey:

Leo Cherne asked that I send you a copy of your 1976 Economic Intelligence report to the PFIAB.

In looking over this work I must say you were "right on the target".

All the best.

Sincerely,



FRED R. DEMECH
Captain, U.S. Navy
Deputy Executive Director

The Honorable William J. Casey
Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. 20505

Enclosure
a/s

October 6, 1976

MEMORANDUM

TO: All PFIAB Members

FROM: William J. Casey

SUBJECT: Economic Intelligence for the Future

Over the period 1977-85 policy makers will have a need for more precise intelligence and estimates on

- the level of the Soviet military effort and its impact on the Russian people
- the stability and the vulnerabilities of the Soviet economy and its ability to carry the military burden placed upon it
- the economic leverage we may have to induce the Soviets to scale down their military effort
- the significance of technological, financial and organizational impacts provided by the West to the growth and vigor of the Soviet economy and its ability to sustain a high level of military effort
- the economic vulnerability of Europe, Japan and the less developed world and the degree to which our adversaries are seeking to exploit those vulnerabilities to achieve political power or military advantage
- how the arrangements arising from increasing efforts to co-ordinate economic policies for the advanced free economies are working and how well they are being adhered to
- who is benefitting and what are the consequences flowing from international agreements to establish commodity reserves and maintain prices
- what economic political initiatives are other countries taking to secure special protection with respect to sources of energy and other critical resources around the world - what are the opportunities for us to secure our own needs for energy and mineral resources

- what are our political adversaries and economic competitors doing to make other important countries technologically dependent on them
- what is the net cost to us of trade in technology in terms of the trade balance, exchange rates, employment and government revenue
- to what degree are our political adversaries and our economic rivals stacking the terms of trade by pricing to milk other countries, as the Soviets have done with Eastern Europe, or by trade barriers to freeze us out markets as the European Community's associate memberships may do
- what imminent or likely technological breakthroughs could have serious impact on our economic position in the world

There is no pretense that this is an exhaustive list. It is intended to illustrate the kind of broad possibilities to which policymakers should be alerted over the years ahead.

When one is asked what new intelligence requirements will emerge in the future, the first reaction is to think of additional information which should be acquired or facts which are lacking. Except in a relatively few areas, it appears that the economic information needed for policy formulation is openly available. There will always be targets of opportunity on which it would be useful to know what someone wants or is about to do. But, except in matters relating to national security in a pressing manner, I do not consider this very important. There are not many basic economic facts that do not emerge openly in the process of development and trade.

Where we are deficient is in the analysis of this information, in understanding relationships, the objectives of others, the pressures being generated, the implications for us. What we don't have as far as I have been able to determine is a comprehensive economic analysis of the elements of economic strength in the modern world and how economic strength is and can be converted into military strength and political power. Just how does the acquisition of technology, the development of resources, the availability of financing and efficiency in organization, production and marketing contribute to military strength and political power.

Until we have done that analytical work to our satisfaction, we will not be able to sufficiently identify the economic and nonmilitary technological intelligence we should be getting. We will not know how to evaluate and use the economic intelligence we do acquire.

Therefore, the task of the intelligence community is to analyze the value of nonmilitary technology, of resource development, of financing, of managerial services, of trade which our adversaries want and seek to acquire from us and our allies. This will identify the information needed to make that assessment and the analysis needed to implement whatever policy evolves from that assessment.

To make our intelligence system capable of responding to these requirements we need some kind of a forum where matters of economic intelligence are brought to be tested and thrashed out. We have this on weapons and on military matters in the National Security Council, its verification committee and other committees and working groups. We just don't go about determining what is going on and what is objective reality on these economic matters as well as we do on military matters.

In economic matters, we seem to have more difficulty than usual distinguishing between intelligence and policy. For example, I was naive enough to think that having members of the intelligence community sit in with the Economic Policy Board would help in bringing intelligence to economic policymaking and guidance to the production of economic intelligence. It hasn't worked at all. The EPB is dealing in policy, for the most part making up its mind on what to do about some currently pressing issue like whether to recommend that the President sign the tax bill or impose countervailing duty on shoes. The intelligence judgments needed by policymakers require careful sustained deliberation and study, argument, and analysis over a substantial period of time. We need the kind of framework for examining not only economic facts and relationships but the perspectives of State and Defense, Treasury and Commerce and others, to get agreed concepts that we now have in the military area. This machinery should be working on fundamental issues like evaluating the growth and vigor of the Soviet economy and what the various insertions of technology contribute. Because we don't do that kind of thing in any solid and continuing way, our control over technology transfer of even military technology has pretty much fallen apart. In the absence of a solid view, issues are dismissed on some such generality as "political benefits exceed any technological loss" or "if they don't get it from us they'll get it from Europe or Japan." If we had a solid evaluation of the value of technology transfer we'd at least have a basis from which to push our allies to pursue a common policy.

As you get down to looking closely at the ingredients of economic intelligence, you discover that science and technology bulk very large. I have the distinct impression that the science and technology resources of the intelligence community are focused so heavily on weapons and technical collection that there is little left for the technological aspect of economic intelligence. This should be corrected in some manner if, as I believe,

policymakers will want more economic intelligence and technological impacts to economic strength will come increasingly to the fore.

More and greater inter-disciplinary efforts should be made. I believe all of us have been impressed by the ability the community has developed to forecast crops by applying a combination of photographic and agronomic skills. The re-evaluation, which Director Bush discussed on the Hill on Tuesday, of the size of the Soviet military effort in relation to the Soviet economy, twice as great as we had thought it was, has obvious collateral implications on how we appraise the importance of Western inputs, on our judgments as to capability of Soviet plant and machinery. I understand that the Community is putting new data into an econometric model of the Soviet economy to measure some of these collateral consequences of this re-evaluation of the relative scale of their military effort. That's well and good. But, that kind of macroeconomic analysis is of doubtful value for policy purposes unless it is supplemented by the specific implications of the providing or withholding of financing, technology and such inputs. Since machinery, production methods and technology are so varied and affect so many sections of the Soviet economy, what is needed is cross-disciplinary work between economists, engineers and scientists in the government and executives and engineers of the Western companies who are either doing business, submitting bids and specifications or implementing scientific agreements with the Soviets. I don't believe this task is as big as it may sound and, as far as I can make out, it has yet to be tackled.

Finally, let me make a few disjointed comments, by way of illustration, about policy judgments which may appear to flow from political or budgeting considerations which may result from economic pressures. Or they may become virtually mandatory because intelligence about these pressures and their implications was not arrived at and presented to policymakers in a timely manner.

We may be facing a cost and financial squeeze on our ability to defend ourselves. We may be facing a resource war. A tighter domestic economy with less fat for investment arising out of more fat for social programs will put pressure on military budgets and our ability to keep up in military competition. As Johnny Foster has spelled out so well, expensive military hardware is likely to be priced out of the market. All this will work to the disadvantage of those societies where the public can escalate social programs and resist taxes and defense spending. It will work to the military advantage of those societies where the public has little to say.

Increasing importance will attach to technological competition to get more defense for the buck -- to achieve military breakthroughs -- to make competing economies more capable of sustaining needed military strength.

I have not seen any analysis of the interplay between the Soviet resources, Soviet agriculture, Soviet industry and the Western technology which the Soviets seek to acquire. We know the basic facts, i. e., Soviet agriculture is inefficient and the Soviets have to lay out huge amounts of cash every year to feed themselves -- the Soviets have raw materials and they have to sell their oil and gas then gold and minerals to get the necessary cash -- Soviet industry is inefficient and they have a difficult time managing it and finding enough people to man it while they have to commit unusually large proportion of the population to farms and to military service -- they try to overcome this by importing Western technology and organization -- this, plus the need for huge amounts of cash to buy food has put them heavily in debt and impaired their borrowing power for the first time -- thus, they can only acquire technology and productive equipment from the west on credit, which only the European and Japanese Governments and American bankers will provide for them, and the American bankers are becoming gun shy.

That's a bare outline. Marshall Goldman of Harvard has put together some numbers but these equations have never been thoroughly analyzed.

Nor have we evaluated Soviet economic initiatives or those which they support to see to what extent they may be designed to offset, compensate and redress these imbalances in the Soviet economic position. To cite a few:

- (a) grain purchase manipulations;
- (b) oil embargo and price increases;
- (c) efforts to acquire Western technology with credit;
- (d) commodity price agreements and commodity stabilization funds.

Some LDC's are pushing very hard for commodity stockpiles and price agreements which would have the effect of stabilizing and increasing raw material prices. The United States is inclined to make concessions to get these conferences behind it. There have been no adequate studies of the implications of these commodity proposals. They would certainly have the effect of pushing prices up sharply. They may benefit the Soviets primarily. They would benefit countries like Canada and Australia which are not poor. They would benefit some mineral-rich, less-developed countries. But all of this would be at the expense not only of the industrialized countries, but of the very poor countries, like Pakistan and Bangladesh, which are without resources.

The Soviets exceed us in the ability to put large numbers of engineers and scientists on developments which promise a large increment of military power, i.e., laser applications. It is not only important for us to know this but it may become increasingly important for this kind of intelligence to be shared with the American people.

Although the USSR and PRC are currently rivals, both are still adversaries of the U.S. and hostile to the theory and practice of capitalism. Each in its own way -- and using different methods -- seems to be conducting a Resource War against the U.S., Japan and the Common Market:

- (a) The USSR by using diplomacy, treaties, naval power and a Cuban Foreign Legion to "seal off" key mineral areas of the Third World and/or sit astride the fuel-lifelines to the West with Russian warships;
- (b) China by tutoring and supporting the anti-capitalist block in the UN in its attacks on private investment, MNCs and the financial infrastructure of capitalist banking;
- (c) both major Communist Powers -- albeit separately -- by encouraging "liberation" movements, the formation of new Cartels to use "raw materials weapons" against the capitalist world, anti-American propaganda and terrorism.

U.S. emergency stockpiles of critical materials have been depleted or degraded. We are more dependent in 1976 on Arab oil than before the embargo of 1973-74. Our Merchant Marine lags far behind that of the Soviet Union, as surely as by formal naval conflict between warships.

Already, the promise of deep-sea mining is being sabotaged by the anti-capitalist, Third World Bloc at the Law of the Sea Conference. The resolutions and final communique of the Non-Aligned Conference -- recently adjourned in Colombo -- were equally sinister in their attitudes towards MNCs, private capitalism and prospects for economic warfare against the West.

I submit that the mere recital of this range of forces shows that the need for economic intelligence is not for more facts but for a continuing analysis and for a framework which will provide policymakers with the same kind of continuing assessment and forum to thrash out economic intelligence questions that now exists for intelligence on military forces, weapons and strategies.

Much of the analysis needed to meet these economic intelligence needs for the future can be made available to the public and private scholars. Also, the community can accelerate and intensify its analysis and increase public acceptance by encouraging taking the lead in stimulating private research on many of these questions. Finally, in my view, these needs will not be met unless we get a broad understanding within the government that operating departments will not and probably cannot do on their own the kind of analysis and provide the kind of long-term perspective and continuing focus which is required to meet economic intelligence needs.